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DOCKETED BY

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Attorneys for Payson Water Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF PAYSON WATER CO., INC., AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

~~DOCKET NO: W-03514A-13-0111~~

IN THE MATTER OF THE APPLICATION
OF PAYSON WATER CO., INC., AN
ARIZONA CORPORATION, FOR
AUTHORITY TO: (1) ISSUE EVIDENCE
OF INDEBTEDNESS IN AN AMOUNT
NOT TO EXCEED \$1,238,000 IN
CONNECTION WITH INFRASTRUCTURE
IMPROVEMENTS TO THE UTILITY
SYSTEM; AND (2) ENCUMBER REAL
PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

**MOTION TO CONSOLIDATE
PROCEEDINGS AND REQUEST
FOR EXPEDITED PROCEDURAL
SCHEDULE**

(EXPEDITED RELIEF REQUESTED)

Payson Water Co., Inc. ("PWC" or the "Company") hereby files this Motion to Consolidate Proceedings and Request for Expedited Procedural Schedule in Docket Nos. W-03514A-13-0111 (rate application) and W-03514A-13-0142 (financing application). The Company moves the Commission to consolidate the rate and financing applications, and order a new, expedited procedural schedule so that it will be able to pursue an opportunity to build an interconnection between the Town of Payson and the Company's Mesa del Caballo water system. The Supplemental Direct Testimony of Jason Williamson is attached as **Exhibit A** in support of the Company's request.

1 **I. PROCEDURAL BACKGROUND**

2 **A. Rate Application**

3 Decision No. 73774, issued March 21, 2013, denied PWC's request for an
4 extension of time to file its permanent rate application and ordered the Company to make
5 a filing within 30 days. Therefore, PWC filed a rate application on April 22, 2013
6 (Docket No. W-03514A-13-0111). The application was deemed sufficient on
7 May 17, 2013. A Rate Case Procedural Order was issued on July 2, 2013. The first and
8 upcoming deadline is for the Company to publish and mail notice to customers by
9 August 30, 2013.

10 **B. Financing Application**

11 On May 17, 2013, PWC filed an application for financing (Docket No. W-03514A-
12 13-0142). Customers have not yet been notified of the Company's application.

13 **II. MOTION TO CONSOLIDATE**

14 Consolidation of the financing and rate applications is warranted because certain
15 issues in the two dockets are inextricably linked. In the financing application, the
16 Company seeks authority to borrow up to \$1,238,000 dollars to build necessary facilities
17 to bring additional water supplies to customers. PWC has worked with WIFA, which
18 stands ready to make loans to the Company for the infrastructure needed to bring
19 additional water supplies to the Mesa del Caballo system upon receipt of Commission
20 approval of financing. The Commission is well aware of the water supply crises this
21 system faces each year between May and September and has already approved
22 extraordinary relief to facilitate augmenting supplies.¹ However, the Company must also
23 be able to afford to repay the loans made by WIFA and be able to operate without its
24 current financial constraints, including being able to service new debt and pay for
25 purchased water. The Company's financial condition will not and cannot improve

26 ¹ See Decision No. 71902 (September 28, 2010).

1 without the relief requested in the rate filing, including the debt service surcharge and
2 provision to recover the costs of purchased water.

3 **III. REQUEST TO EXPEDITE**

4 As explained in the testimony of Jason Williamson (see **Exhibit A**) PWC has very
5 recently discovered an opportunity to build a new water transmission line to connect its
6 Mesa del Caballo system to the Town of Payson's (the "Town") water supplies.
7 At present, the Company buys water from the Town and hauls it into the system during
8 the summer months.² The costs of the water and the hauling are passed on to customers
9 under the augmentation tariff, and the Commission is well aware of the customers'
10 continued frustration with these inordinate expenses.

11 The Company has been working with the Town and will be a part of the Cragin
12 Pipeline project. This project will create a long-term surface water supply for the
13 Company but won't come on line until sometime in 2016 at the earliest. Fortunately, the
14 Company's new ownership has found a way to bring additional water to the Mesa del
15 Caballo system sooner. Specifically, it is now known that a portion of the Cragin line can
16 be built now, interconnecting the Town and Mesa del Caballo systems sooner. Indeed, if
17 the Company can get the necessary financing approval to borrow the money from WIFA
18 to build the TOP-MDC line, and approval of new rates, including a debt service surcharge
19 and provision for paying for purchased water by year-end 2013, the Company has good
20 reason to believe it can have the line ready by summer 2014. In other words, the
21 Company would not have to haul water to Mesa del Caballo next summer. But time is of
22 the essence.

23 First, in order to borrow the money to build the TOP-MDC line, the Company
24 needs approval to incur the WIFA debt. Second, PWC cannot currently afford to service

25 _____
26 ² Direct Testimony of Robert T. Hardcastle (filed April 22, 2013 in Docket No. W-03514A-13-0111) at 7:6-8.

1 this or any new debt. Nor can it pay for the water to be purchased from the Town without
2 the augmentation surcharge which currently allows for recovery of that cost. During the
3 test year, the Company experienced a net operating loss of \$182,479.³ In short, no matter
4 how opportune the moment, the Company cannot and should not take on any additional
5 financial burden until it has the ability to pay its operating expenses, including purchased
6 water, and provide its shareholder a return and service the new debt.

7 **IV. RELIEF REQUESTED**

8 In order to reach the desired result – approval of financing and approval of new
9 rates in time for PWC to take the opportunity currently available to build the TOP-MDC
10 pipeline, the Company believes the Commission should expeditiously order the two
11 dockets consolidated and order a new procedural schedule. The Company's suggested,
12 expedited procedural schedule is as follows:

Current Date	Proposed Date	Item
09/30/13	09/20/13	All Motions to Intervene
10/16/13	09/27/13	Staff/Intervenor Direct Testimony ⁴
N/A	10/07/13	Settlement Conferences
11/08/13	10/15/13	Company Rebuttal Testimony
11/22/13	10/25/13	Staff/Intervenor Surrebuttal Testimony
12/04/13	N/A	Company Rejoinder Testimony
12/06/13	TBD	Prehearing Conference

25 ³ Application (filed April 22, 2013 in Docket No. W-03514A-13-0111) at 3:7.

26 ⁴ The response time to data requests should be reduced to five days on this date from seven days once this new schedule is ordered.

1	Current	Proposed	Item
2	Date	Date	
3	12/09/13	11/04/13	1st day of hearing ⁵
4	N/A	11/22/2013	Closing Briefs
5	N/A	12/17/13	ACC Open Meeting

6

7 The Public Notice is currently due August 30, 2013, and it would be preferable to send

8 one notice with a new, expedited procedural schedule if such schedule is directed by the

9 Commission. Thus, new notice requirements should be addressed as well. Finally, the

10 Company should also be directed to file notice and explanation of any modifications to the

11 relief requested it feels are necessary in order to pursue the opportunity to bring the TOP-

12 MDC pipeline on line by next summer.

13 PWC recognizes this is an extraordinary request. But so is the water supply

14 situation for Mesa del Caballo and the opportunity to build a line to improve the situation

15 before hauling has to occur in 2014. Under such circumstances, the Company respectfully

16 suggests that the public interest requires expedited relief, including financing approval and


17 the approval of new rates by year-end 2013. Absent such relief, PWC will not be able to

18 take advantage of the opportunity to build the TOP-MDC line before summer 2014.

19 RESPECTFULLY SUBMITTED this 15th day of August, 2013.

20 FENNEMORE CRAIG, P.C.

21

22 By 

23 Jay L. Shapiro

24 2394 E. Camelback Road

25 Suite 600

Phoenix, Arizona 85016

Attorneys for Payson Water Co., Inc.

26 ⁵ Hearings would continue, if needed, on November 5 and 6, 2013.

1 **ORIGINAL** and thirteen (13) copies
2 of the foregoing were filed
3 this 15 day of August, 2013, with:
4 Docket Control
5 Arizona Corporation Commission
6 1200 W. Washington Street
7 Phoenix, AZ 85007
8
9 **Copy of the foregoing was hand delivered**
10 **this 15th day of August, 2013, to:**
11 Chairman Bob Stump
12 Arizona Corporation Commission
13 1200 W. Washington Street
14 Phoenix, AZ 85007
15 Commissioner Gary Pierce
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18 Phoenix, AZ 85007
19 Commissioner Brenda Burns
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EXHIBIT

A

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6 Attorneys for Payson Water Co., Inc.

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21 PROPERTY AND PLANT AS SECURITY
22 FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

23 **SUPPLEMENTAL DIRECT TESTIMONY**

24 **TESTIMONY OF**
25 **JASON WILLIAMSON**

26 **August 15, 2013**

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1 **I. INTRODUCTION, QUALIFICATIONS, PURPOSE AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jason Williamson. My business address is 7581 E. Academy
4 Boulevard, Suite 229, Denver, Colorado 80230.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of the Applicant, Payson Water Co., Inc. ("PWC" or the "Company").

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I'm Manager of JW Water Holdings, LLC, a Colorado limited liability company
9 ("JW Water"). On May 31, 2013, JW Water acquired three utility companies from
10 Brooke Utilities, Inc. ("BUI"), including PWC. As of June 1, 2013, PWC is owned
11 and operated by JW Water as are the other two utilities, Tonto Basin Water and
12 Navajo Water.

13 **Q. DO YOU HAVE ANY PREVIOUS EXPERIENCE WITH OWNING AND**
14 **OPERATING UTILITIES?**

15 A. I'm also affiliated with Pivotal Utility Management, LLC ("Pivotal").
16 Pivotal manages and/or operates a total of ten water and sewer utilities, eight of
17 which are in Arizona, seven of them regulated by the Commission. The largest is
18 Coronado Utilities, which provides sewer utility service in San Manuel, Arizona.
19 We also own and operate Verde Santa Fe Wastewater that is located near
20 Cottonwood. The Commission has requested that Verde Santa Fe also file a rate
21 case that we are currently in the process of preparing for filing.

22 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES FOR THE UTILITIES**
23 **AND HOLDING COMPANIES.**

24 A. I oversee the day-to-day operations and business management functions for
25 JW Water and Pivotal, including providing contract management services for a
26 number of water and sewer system operations.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

2 A. Yes, the last time being for Coronado Utilities.

3 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT**
4 **TESTIMONY?**

5 A. The overarching purpose is to urge the Commission to consolidate PWC's pending
6 rate and financing applications and expedite approval of new rates and financing
7 approval so that we can solve the Mesa del Caballo water shortage crisis before we
8 have to haul again in 2014.

9 **Q. EXCUSE ME, MR. WILLIAMSON, BUT THAT'S QUITE A**
10 **PROPOSITION.**

11 A. I know. I will explain in further detail in this testimony but the *Reader's Digest*
12 version is that right after JW Water acquired the Company we discovered a way to
13 connect the Town of Payson (the "Town") water system directly into the system
14 serving Mesa del Caballo. Unfortunately, the Company cannot afford to build this
15 line without financing approval and new rates. In other words, if the new owners
16 are going to have a chance to improve Mesa del Caballo's water supply situation
17 before next year's augmentation period, we need the Commission's help and we
18 need it fast.

19 **Q. HOW WOULD CUSTOMERS BENEFIT FROM THIS ACCELERATED**
20 **SCHEDULE AND CONSTRUCTION OF A NEW LINE BEFORE NEXT**
21 **YEAR'S AUGMENTATION PERIOD?**

22 A. If we stay on the current procedural schedule, we will not have a decision in the
23 rate case until next summer. That means construction on the project would not
24 start until some time next year, more than likely after we have had to haul for
25 another summer.

26

1 Q. BUT DON'T YOU JUST NEED FINANCING APPROVAL TO BORROW
2 THE MONEY TO BUILD THE LINE?

3 A. No. Without new rates, including a debt service surcharge, it would be imprudent
4 to take on additional debt. The Company already faces severe financial constraints,
5 as evidenced by its request for a substantial rate increase. But, if we consolidate
6 and expedite the cases, approval of financing and new rates would allow us to
7 begin construction sooner, and we could have the line connecting Mesa del Caballo
8 to the Town's water system in place before next summer. Summer is the key factor
9 in our customers' discontent, because that's when water use exceeds our well
10 capacity, causing us to haul water from the Town into our system, and charge our
11 customers the high augmentation surcharges as a result – we are seeing bills of
12 around \$150 for 7,000 gallons of use because of hauling charges.

13 II. MESA DEL CABALLO

14 Q. OBVIOUSLY SOMETHING CHANGED SINCE THE RATE CASE WAS
15 FILED. CAN YOU PLEASE UPDATE THE COMMISSION ON WHAT
16 HAS TRANSPIRED?

17 A. As I mentioned, JW Water purchased the stock of three water companies from
18 Brooke Utilities in a transaction that closed about a month after the PWC rate case
19 filing deadline set by this Commission. I took over day-to-day management of the
20 Company from Mr. Hardcastle, who previously filed direct testimony, which
21 testimony I will be adopting. It didn't take long for me to become immersed in the
22 water shortages impacting Mesa del Caballo.

23 Q. WHAT IS MESA DEL CABALLO?

24 A. It is both the name of a residential community or subdivision in the Company's
25 CC&N, and the name of the water system that serves that community. There are
26 approximately 400 customers connected to that system.

1 **Q. WHAT IS THE PROBLEM WITH MESA DEL CABALLO'S WATER**
2 **SUPPLY?**

3 A. While I'm new to this system, and certainly no expert in hydrology, I have learned
4 from Steve Noel at Southwest Groundwater Consulting, that there is essentially no
5 aquifer below Mesa Del Caballo. Mr. Noel documented that the subdivision is
6 built on a solid granite outcropping where water trickles through cracks in the
7 granite. This makes drilling wells (especially deep ones) a very risky (and
8 expensive) proposition. As a result of this condition, and the unpredictability of
9 many of the wells in the subdivision, PWC has been forced to augment supply by
10 hauling water into the system during the summer. Such hauling occurs pursuant to
11 the emergency curtailment and water augmentation tariffs the Commission ordered
12 in Decision No. 71902 (September 28, 2010).

13 **Q. WHAT STEPS HAVE BEEN TAKEN TO COMBAT THIS WATER**
14 **SUPPLY CRISIS?**

15 A. Mr. Hardcastle's direct testimony contains a description of the system's
16 improvements that were made before the rate case was filed, as well as a specific
17 discussion of the problems related to the Mesa del Caballo system.¹
18 To summarize, after researching all available options, and in particular,
19 determining that further well drilling was not economically feasible, the Company
20 turned its attention to working with the Town on the Cragin Pipeline Project.

21 **Q. WHAT IS THE CRAGIN PIPELINE PROJECT?**

22 A. It is a project that is being spearheaded by the Town to bring new water to the
23 Town and surrounding areas. Specifically, the Cragin Pipeline would bring water
24 from Salt River Project's C.C. Cragin reservoir, located about 25 miles northeast of
25 Payson. The Cragin Pipeline route and the Town's new water treatment system are

26 ¹ Direct Testimony of Robert T. Hardcastle at 4:16 – 5:11, 6:15 – 7:14.

1 located literally across the street from Mesa del Caballo.² Our agreement with the
2 Town and SRP (the owner of the Cragin Reservoir) allows PWC to interconnect
3 and give PWC access to as much as 72 acre-feet of renewable water supplies
4 annually. The entire project is estimated to cost roughly \$1,238,000.³

5 **Q. WHAT IS THE ANTICIPATED COMPLETION DATE OF THE CRAGIN**
6 **PIPELINE?**

7 A. According to the Town, completion of the Cragin Pipeline and the associated water
8 treatment plant are scheduled for September of 2016.

9 **Q. THEN WHAT'S THE URGENCY?**

10 A. We have the opportunity to take advantage of a change in the Town's Cragin
11 construction project, which is already about 25% complete. The change was that
12 the Town decided to build the section of pipeline that runs from the current Town
13 water distribution system to Mesa del Caballo (about 3.5 miles) now.
14 Town engineers explained that while that pipeline is designed to send water from
15 the Cragin reservoir to the Town once the pipeline and water treatment facility are
16 completed, the pipeline can actually function in the reverse direction – the Town
17 can flow water from its storage facilities, out to Mesa del Caballo. As a result, the
18 Town water will be available to be used in the Mesa del Caballo system, and the
19 Town is hoping that PWC will connect to and establish a new, permanent water
20 service connection that will be available by May 2014.

21 The opportunity to possibly provide a permanent solution to the water
22 shortages through construction of what we now refer to as the TOP-MDC line
23 *prior to next year's augmentation cycle is what is driving this urgent request.*
24

25 _____
26 ² *Id.* at 10:6-7.

³ *Id.* at 10:7-10.

1 **Q. YOU SAID "POSSIBLY." IS THERE UNCERTAINTY?**

2 A. The uncertainty does not refer to whether the line can bring the water, once built,
3 or whether the Town has sufficient water available. The uncertainty lies in the
4 regulatory process the Company must go through to build, finance and pay for the
5 costs to build the project and then operate it so we can improve the situation.

6 **III. THE TOP-MDC LINE**

7 **Q. PLEASE DESCRIBE WHAT YOU REFER TO AS THE TOP-MDC LINE.**

8 A. There are two portions to the TOP-MDC line. Portion one is the section currently
9 being constructed by the Town that will bring their water service/ distribution
10 system to the doorstep of Mesa del Caballo. This portion is the responsibility of
11 the Town and does not involve PWC. Portion two is the installation of a pipeline
12 crossing Houston Mesa Rd. from the termination of the Town line, into the Mesa
13 del Caballo subdivision, connecting to the water system's main storage tank
14 facilities. This portion would be the cost and responsibility of PWC.

15 **Q. WHERE WILL THE WATER COME FROM?**

16 A. The Town. It is the same water we are buying now and paying a trucking company
17 to haul to Mesa del Caballo during the augmentation period.

18 **Q. HOW DID THIS PROJECT IDEA COME ABOUT?**

19 A. It came out of a meeting with representatives from the Town the day after I
20 purchased PWC. Bob Hardcastle introduced me to them, and we started talking
21 about the delay in the Cragin project (from 2015 to 2016) and the possible
22 solutions for Mesa del Caballo in the interim period.

23 **Q. WHEN CAN THIS PROJECT BE BUILT?**

24 A. It depends on the date we receive a final decision on the rate case and financing
25 application. We can begin construction within weeks of the decision, and we are
26 estimating the entire portion 2 project will take between 8 and 12 weeks.

1 Q. WHAT IS THE ESTIMATED TOTAL COST TO BUILD THE TOP-MDC
2 LINE?

3 A. We have estimated the cost of portion 2 to be approximately \$250,000. However,
4 that estimate will depend on when we can give the contractor(s) the go-ahead.

5 IV. FINANCING THE TOP-MDC PIPELINE

6 Q. HOW DOES THE COMPANY PLAN TO PAY FOR THE INSTALLATION
7 OF THE TOP-MDC PIPELINE?

8 A. We will have to wait until we get WIFA funding in place to do that work, which is
9 why we are so keen to expedite. If, for example, we have financing
10 authorization/rate approval from the Commission by year-end, we would then
11 proceed to authorize the construction of portion 2, which will take 8-12 weeks to
12 complete. That is about the same time WIFA will need to complete approval of
13 our pre-authorized financing, and to supply our first tranche of funding. So, this
14 sort of schedule would give us a small margin of error in our effort to have this
15 new water line available before May 2014, when, absent the TOP-MDC line, we
16 would expect to have to haul again.

17 As you know from our financing application, we have WIFA financing
18 lined-up related to all of the Cragin pipeline project and that financing can be taken
19 down in phases with the first phase being used to build portion 2 of the TOP-MDC
20 line. Keep in mind that portion 2 would need to be built for the Cragin facility
21 anyhow; so this is not a new capital expenditure, it is simply expediting one part of
22 the total project to take advantage of an opportunity to solve the water shortage
23 issue within months, instead of years. And the result would be avoiding water
24 hauling costs next summer, which would mean a lot to our customers.

1 Q. SO YOU NEED COMMISSION APPROVAL TO BORROW THE MONEY
2 FROM WIFA?

3 A. Yes, we cannot borrow money for any portion of this project without Commission
4 approval. If we don't get Commission approval for several months, not only will
5 the line likely cost more, but it will not be available before the summer 2014.

6 Q. CAN'T THE SHAREHOLDER FUND IT WITH EQUITY CAPITAL?

7 A. Unfortunately no. JW Water Holdings purchased PWC with the expectation that
8 funding for the Cragin project would be done using debt from WIFA. This is the
9 least expensive route for our customers as well, and is consistent with our current
10 filings, so there seems no good reason to change horses at this stage.

11 Q. HOW WILL THE COMPANY PAY FOR THE WATER?

12 A. Hopefully through our rates. That's why just getting financing approval and a debt
13 service surcharge is not sufficient. Right now we pay for the water we haul under
14 the augmentation surcharge. We will need a rate structure that includes the cost of
15 servicing the debt and paying the cost of the water we purchase from the Town.
16 Otherwise, as I have testified, we simply cannot afford to do this project.

17 V. SUMMARY OF RELIEF REQUESTED

18 Q. SO WHAT EXACTLY DOES THE COMPANY WANT FROM THIS
19 COMMISSION?

20 A. The motion we filed and to which my testimony is attached identifies the relief
21 requested in more detail. To summarize, first we need the Commission to
22 consolidate the two applications – financing and rate case – and then we need them
23 expedited. We need the approval to borrow and then rates that will allow us to pay
24 our bills, including the new debt service and the cost of the water.

25

26

1 **Q. WHEN DO YOU NEED ALL THIS BY?**

2 A. As stated in my earlier example, approval by year-end should provide sufficient
3 time to construct portion 2 and obtain the first tranche of WIFA financing by the
4 end of first quarter 2014. This sort of timeline will allow us to meet the stated goal
5 of this whole request: To have the TOP-MDC pipeline in service *prior* to the 2014
6 augmentation period (which begins in May, 2014).

7 **Q. YOU DO RECOGNIZE THAT YOU ARE ASKNG A LOT OF THE**
8 **COMMISSION, DON'T YOU MR. WILLIAMSON?**

9 A. I do, but this is an extraordinary opportunity to address a serious problem. If we
10 retain the existing schedule, we will have (at least) one more summer of water
11 hauling and the consternation that goes with the high costs. This is a unique
12 situation that requires extraordinary and cooperative efforts to solve. The Town,
13 the Commission, and the Company have the opportunity to work together and
14 bring about a solution that avoids another summer of hauling but to seize the
15 opportunity we have to move a lot more quickly than the current schedule provides.

16 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT**
17 **TESTIMONY?**

18 A. Yes.

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